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Answers Key:

IV) Answer all the questions

1. **In the books of Ahmed**

Calculation of opening capital

Statement of affairs as on 31st March, 2017

Liabilities	Rs	Assets	Rs
Bank overdraft	14,000	Cash in hand	800
Creditors	60,000	Stock	12,000
Capital (balancing figure)	92,800	Debtors	34,000
		Plant	80,000
		Furniture	40,000
	1,66,800		1,66,800

Calculation of closing capital

Statement of affairs as on 31st March, 2018

Liabilities	Rs	Assets	Rs	Rs
Creditors	72,000	Bank balance		18,000
Capital (balancing figure)	1,04,000	Cash in hand		1,500
		Stock		16,000
		Debtors	30,000	
		Less: Provision for doubtful		
		debts @ 5%	1,500	28,500
		Plant	80,000	
		Less: Depreciation	8,000	72,000
		Furniture		40,000
	1,76,000			1,76,000

Statement of profit or loss for the year ending 31st March, 2018

Particulars	Rs
Closing capital as on 31.3.2018	1,04,000
Add: Drawings during the year	40,000
	1,44,000
Less: Additional capital introduced during the year	16,000
Adjusted closing capital	1,28,000
Less: Opening capital as on 31.3.2017	92,800
Profit for the year ending 31.3.2018	35,200

2. **In the books of Arjun Statement of affairs as on 1st April, 2018**

Liabilities	Rs.	Assets	Rs.
Creditors	5,000	Cash at bank	4,000
Opening capital	30,000	Stock	9,000
(balancing figure)		Sundry debtors	2,000
		Plant and machinery	20,000
	35,000		35,000

Dr. Total creditors account Cr.

Particulars	Rs.	Particulars	Rs.
To Cash A/c (paid)	64,000	By Balance b/d	5,000
To Purchases returns	2,000	By Purchases A/c (credit)	65,000
To Balance c/d	4,000	(balancing figure)	
	70,000		70,000

Dr. Trading and Profit and Loss Account for the year ended 31st March, 2019 Cr.

Particulars		Rs.	Particulars		Rs.
To Opening stock		9,000	By Sales	85,000	
To Purchases			Less Returns	1,000	84,000
Credit	65,000		By Closing stock		16,000
Less Returns	2,000	63,000			
To Carriage inwards		8,000			
To Gross profit c/d		20,000			
		1,00,000			1,00,000
To Advertising		4,700	By Gross Profit b/d		20,000
To Depreciation on machinery		1,000			
To Provision for doubtful debts		300			
To Net profit transferred to capital a/c		14,000			
		20,000			20,000

Balance Sheet as on 31st March, 2019

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital	30,000		Cash at bank		6,000
Add: Net profit	14,000		Stock		16,000
	44,000		Sundry debtors	5,300	
Less: Drawings	2,000	42,000	Less: Provision	300	5,000
Sundry creditors		4,000	Plant and Machinery	20,000	
			Less: Depreciation	1,000	19,000
		46,000			46,000

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3. Dr. In the books of Friends Football Club Income and Expenditure Account for the year ended 31st March, 2017 Cr.

Expenditure	Rs.	Rs.	Income	Rs.	Rs.
To Sports materials					
consumed			By Subscription	5,000	
Purchases	800		Add: Outstanding for 2016-17	600	5,600
Less: Closing stock	100	700	By Collection for special dinner		2,000
To Special dinner expenses		1,500			
To Electricity charges		900			
To Excess of income over expenditure (surplus)		4,500			
		7,600			7,600

Balance sheet as on 31st March, 2017

Liabilities	Rs.	Rs.	Assets.	Rs.	Rs.
Capital fund	23,000		Furniture	12,000	
Add: Excess of income			Add: Additions	7,000	19,000
over expenditure (surplus)	4,500	27,500	Stock of sports materials		100
Legacies		6,000	Subscription outstanding		
			for 2016-17		600
			Cash at bank		12,000
			Cash in hand		1,800
		33,500			33,500

4. To find the opening capital fund, opening balance sheet should be prepared.

In the books of Coimbatore Cricket Club Balance sheet as on 31st March, 2015

Liabilities	Rs.	Assets	Rs.
Capital fund	10,500	Stock of balls and bats	3,000
(Balancing figure)		Cash at bank	8,000
Subscription received in advance	500		
	11,000		11,000

Dr. Income and Expenditure Account for the year ended 31st March, 2016 Cr.

Expenditure	Rs.	Rs.	Income	Rs.	Rs.
To Maintenance		5,000	By Subscriptions	11,000	
To Secretary's honorarium		4,500	Add: Received in advance		
To Bats and balls	7,400		in 2014-15 for 2015-16	500	
Add: Opening stock	3,000			11,500	
	10,400		Add: Outstanding for 2015-16	2,000	13,500
Less: Closing stock	1,000	9,400	By Sale of old bats and balls		100
			By Excess of expenditure		
			over income (deficit)		5,300
		18,900			18,900

Balance sheet as on 31st March, 2016

Liabilities	Rs.	Rs.	Assets	Rs.
Capital fund	10,500		Furniture	15,000
Less : Excess of expenditure			Stock of balls and bats	1,000
over income (deficit)	5,300	5,200	Subscriptions outstanding	2,000
Reserve for Pavilion Fund			Cash at bank	7,800
Subscriptions for tournament	2,000			
Less: Tournament Expenses	1,400	600		
Legacies		20,000		
		25,800		25,800

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5.

S.NO.	Basis	Receipts and Pa ments Account	Income and Expenditure Account
1.	Nature of account	It is a real account. Cash receipts are recorded on the debit side and cash payments are recorded on the credit side.	It is a nominal account. Expenses are recorded on the debit side and incomes are recorded on the credit side.
2.	Basis of accounting	It is based on cash system of accounting. Non-cash items are not recorded	It is based on accrual system of accounting. Non-cash items like outstanding expenses, depreciation etc. are also recorded
3.	Opening and closing balance	It commences with an opening balance of cash and bank and ends with closing balance of cash and bank.	There is no opening balance. It ends with surplus or deficit.
4.	Nature of items	It contains actual receipts and payments irrespective of revenue or capital items in nature	It contains only revenue items,that is, only revenue expenses and revenue incomes.
5.	Period	All cash receipts and payments made during the year pertaining to the past period, current period and subsequent period are recorded	It contains only the items relating to the current period

6.

Dr. Partners' Capital Account Cr.

Date	Particulars	Shanthi Rs.	Sumathi Rs.	Date	Particulars	Shanthi Rs.	Sumathi Rs.
2018				2018			
				Jan 1	By Balance b/d	1,00,000	80,000
Dec 31	To Balance c/d	1,10,000	1,00,000	June 1	By Bank (Additional capital)	10,000	20,000
		1,10,000	1,00,000			1,10,000	1,00,000
				2019			
				Jan 1	By Balance b/d	1,10,000	1,00,000

Dr. Partners' Current Account Cr.

Date	Particulars	Shanthi Rs.	Sumathi Rs.	Date	Particulars	Shanthi Rs.	Sumathi Rs.
	To Drawings	20,000	13,000		By Balance b/d	5,000	3,000
	To Interest on				By Profit and loss		
		500	300				
	drawings				appropriation A/c	10,000	8,000
	To Balance c/d	9,800	4,300		(share of profit)		
					By Interest on capital	6,300	5,400
					By Salary	9,000	-
					By Commission	-	1,200
		30,300	17,600			30,300	17,600
					By Balance b/d	9,800	4,300

7. Dr. Profit and loss appropriation account for the year ended 31st March 2019 Cr.

Particulars	Rs.	Rs.	Particulars	Rs.
To Interest on capital A/c:			By Profit and loss A/c	20,000
Durai (25,000 × 5%)		1,250	By Interest on drawings A/c	
Velan (30,000 × 5%)		1,500	Durai	300
To Salary to Durai A/c		5,000	Velan	450
To Commission to Velan A/c		2,000		
To Partners' capital A/c (profit transferred)				
Durai (11,000 × 2/5)		4,400		
Velan (11,000 × 3/5)		6,600	11,000	
			20,750	20,750

8.

Basis of destination	Fixed capital method	Fluctuating capitals method
Number of accounts	Two accounts are maintained for each partner, that is, capital account and current account.	Only one account, that is, capital account is maintained for each partner.
Change in capital	The amount of capital normally remains unchanged except when additional capital is introduced or capital is withdrawn permanently	The amount of capital changes from period to period.
Closing balance	Capital account always shows a credit balance	Capital account generally shows credit balance. It may also show a debit balance.
Adjustments	All adjustments relating to interest on capital, interest on drawings, salary or commission, share of profit or loss are done in current account	All adjustments relating to interest on capital, interest on drawings, salary or commission, share of profit or loss are done in the capital account

9. Average profit = $\frac{Total\ profit}{Number\ of\ year}$

Average profit = $\frac{30,000+32,000+35,000+37,000+40,000}{5}$

Average profit = $\frac{1,74,000}{5}$

Particulars	Rs.
Average profit before fair remuneration to the partners	34,800
Less: Fair remuneration to the partners	2,800
Average profit	32,000

Normal profit = Capital employed × Normal rate of return
= 1,20,000 × 20%
= Rs. 24,000
Super profit = Average profit - Normal profit
= 32,000 – 24,000
= Rs. 8,000
Goodwill = Super profit × Number of years of purchase
= 8,000 × 5
= Rs. 40,000

10. Goodwill = Super profit × Number of years of purchase
Super profit = Average profit - Normal profit
Normal profit = Capital employed × Normal rate of return
Capital employed = Fixed asset + Current assets - Current liabilities
5,00,000 - 2,00,000 = Rs. 3,00,000
Normal profit = 3,00,000 x 12.5%
= Rs. 37,500
Super profit = 60,000 - 37,500 = Rs. 22,500
Goodwill = 22,500 × 2
= Rs. 45,000

11. Dr. Revaluation Account Cr.

Particulars	Rs.	Rs.	Particulars	Rs.
To Stock A/c		2,000	By By Land A/c	11,000
To Debtors A/c		3,000		
To Profit on revaluation transferred to				
Sundar's capital A/c (3/6)	3,000			
Vivek's capital A/c (2/6)	2,000			
Pandian's capital A/c (1/6)	1,000	6,000		
		11,000		11,000

Dr. Capital Account Cr.

Particulars	Sundar Rs.	Vivek Rs.	Pandian Rs.	Particulars	Sundar Rs.	Vivek Rs.	Pandian Rs.
To Profit and loss A/c	3,000	2,000	1,000	By Balance b/d	50,000	40,000	10,000
To Pandian's Executor A/c			16,000	By General reserve	18,000	12,000	6,000
To Balance c/d	**68,000**	**52,000**		By Revaluation A/c (profit)	3,000	2,000	1,000
	71,000	54,000	17,000		71,000	54,000	17,000
				By Balance b/d	68,000	52,000	

Balance Sheet as on 1st January, 2019

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital account:			Land	80,000	
Sundar	68,000		Add: Appreciation	11,000	91,000
Vivek	52,000	1,20,000	Stock	20,000	
Pandian's Executor A/c		16,000	Less: Decrease	2,000	18,000
Sundry creditors		14,000	Debtors	30,000	
			Less: Decrease	3,000	27,000
			Cash at bank		14,000
		1,50,000			1,50,000

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12. Dr Revaluation Account Cr

Particulars	Rs	Rs	Particulars	Rs
To Stock A/c		5,000	By Buildings A/c	20,000
To Profit on revaluation				
transferred to				
Vijayan's capital A/c				
(15,000 × 5/12)	7,000			
Sudhan's capital A/c				
(15,000 × 4/12)	5,000			
Suman's capital A/c	3,000	15,000		
(15,000 × 3/12)				
		20,000		20,000

Dr Capital Account Cr

Particulars	Vijayan Rs	.Sudhan Rs	Suman Rs	Particulars	Vijayan Rs	Sudhan Rs	Suman Rs
To Suman's				By Balance b/d	70,000	50,000	30,000
capital A/c	4,200	3,000	-	By Gene			
To Suman's				reserve	8,400	6,000	3,600
To Balance c/d	81,200	58,000	-	A/c (profit)	7,000	5,000	3,000
				By Vijayan's			
				capital A/c			4,200
				BySudhan's			
				capital A/c			3,000
	85,400	61,000	43,800		85,400	61,000	43,800
				By Balanced b/d	81,200	58,000	-

Balance Sheet as on 31st March 2019

Liabilities	Rs	Rs	Assets	Rs	Rs
Capital accounts			Building	80,000	
Vijayan	81,200		Add: Appreciation	20,000	1,00,000
Sudhan	58,000	1,39,200	Stock	45,000	
			Less: Deprec	5,000	40,000
Suman's Executor's A/c		43,800	Debtors		25.000
		17,000	Cash at bank		20,000
					15,000
		2,00,000			2,00,000

Working Notes:

(i) Profit sharing ratio = capital ratio = 70,000 : 50,000 : 30,000 that is 7 : 5 : 3

Gaining ratio between Vijayan and Sudhan = old profit sharing ratio = 7: 5

(ii) Calculation of current year's profit

Average profit = $\frac{40,000+50,000+30,000}{3} = \frac{1,20,000}{3} = 40,000$

Current year's profit = $40,000 \times \frac{3}{12} = 10,000$

Suman's Share of current year's profit = $10,000 \times \frac{3}{15} = 2,000$

(iii) Suman's Share of good will = $36,000 \times \frac{3}{15} = 7,200$

It is to be borne by Vijayan and Sudhan in the gaining ratio 7 : 5

13. **Dr. Revaluation Account Cr.**

Particulars	Rs.	Rs.	Particulars	Rs.
To Furniture A/c		2,000	By Stock A/c	4,000
To Profit on revaluation transferred to			By Machinery A/c	20,000
Ameer's capital A/c (3/5)	13,200			
Raja's capital A/c (2/5)	8,800	22,000		
		24,000		24,000

Dr. Capital Account Cr.

Particulars	Ameer Rs.	Raja Rs.	Rohit Rs.	Particulars	Ameer Rs.	Raja Rs.	Rohit Rs.
To Balance c/d	1,08,200	88,800	30,000	By Balance b/d	80,000	70,000	-
				By Bank A/c	-	-	30,000
				By Reserve fund A/c	9,000	6,000	-
				By Revaluation A/c	13,200	8,800	-
				By Bank A/c* (share of goodwill	6,000	4,000	-
	1,08,200	88,800	30,000		1,08,200	88,800	30,000
				By Balance b/d	1,08,200	88,800	30,000

Since the sacrificing ratio is not given and the new partner's share is given, it is assumed that the old profit sharing ratio (3:2) is the sacrificing ratio and the new partner's share of goodwill is distributed to the old partners accordingly.

Dr. Cash at bank Account Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
	To Balance b/d	20,000		By Balance	60,000
	To Rohit's capital A/c	30,000			
	To Ameer's capital A/c	6,000			
	To Raja's capital A/c	4,000			
		60,000			60,000

Balance Sheet as on 1st January 2019

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital accounts:			Machinery	60,000	
Ameer	1,08,200		Add: Appreciation	20,000	80,000
Raja	88,800		Furniture	40,000	
Rohit	30,000	2,27,000	Less: Depreciation	2,000	38,000
		35,000	Debtors		30,000
			Stock	10,000	
			Add: Appreciation	4,000	14,000
			Prepaid insurance		40,000
			Cash at bank		60,000
		2,62,000			2,62,000

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14. Dr Revaluation Account Cr

Particulars	Rs	Rs	Particulars	Rs
To Deptors A/c		2000	By Building A/C	10,000
To profit revaluaion			By Stock Ale	3,000
to transferred				
Jame's capital A/c	5,500			
Justona's capital a/c	5,500	11,000		
		13,000		13,000

Dr Capital Account Cr

Particulars	James Rs	Justina Rs	Balan Rs	Particulars Rs	James Rs	Justina Rs	Balan Rs
To Balance c/d	58,000	68,000	25,000	By Balance b/d	40,000	50,000	-
				By Reserve fund A/c	7,500	7,500	-
				By Bank Ale	-	-	25,000
				By Revaluation AI	5,500	5,500	-
				By Bank A/c share of good will	5,000	5,000	-
	58,000	68,000	25,000		58,000	68,000	25,000
				By Balance bid	58,000	68,000	25,000

Dr Cash at Bank Account Cr

Particulars	Rs	Particulars	Rs
To Balance b/d	15,000	By Balance c/d	50,000
To Balan's capital A/c	25,000		
To Jame's capital A/c	5,000		
To Justina's capital A/c	5,000		
	50,000		50,000

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Dr Balance sheet as on 1st January 2017 Cr

Liabilities	Rs	Rs	Assets	Rs	Rs
Capital Account			Building	70,000	
James's A/c	58,000		Add: Appreciation	10,000	80,000
Justina A/c	68,000		Stock	30,000	
Balan A/c	25,000	1,51,000	Less: Appreciation	3,000	33,000
Creditors		35,000	Debtors	20,000	
			Less: Undervalued	2,000	18,000
			Bank		50,000
			Prepaid insurance		5,000
		1,86,000			1,86,000

III) Answer any 7 questions and Q.no 40 is compulsory

15. **Statement of profit or loss for the year ended 31st March, 2019**

Particulars	Rs.
Closing capital (as on 31.3.2019)	1,90,000
Add: Drawings during the year	30,000
	2,20,000
Less: Additional capital introduced during the year	50,000
Adjusted closing capital	1,70,000
Less: Opening capital (as on 1.4.2018) (balancing figure)	2,10,000
Loss for the year ending 31.3.2019	(-) 40,000

16. **Limitations of incomplete records:**

1) Lack of proper maintenance of records:

It is an unscientific and unsystematic way of maintaining records. Real and nominal account are not maintained properly.

2) Difficulty in preparing trial balance:

As account are not maintained for all items. The accounting record are incomplete. Hence, it is difficult to prepare trial balance to check the arithmetical accuracy of account.

3) Difficulty in ascertaining true profitability of the business:

Profit is found out based on available information and estimate. Hence, it is difficult to prepare ascertain true profit as the trading and profit and loss account cannot be prepared with accuracy.

4) Difficulty in ascertaining financial position:

In general, only the estimated values of asset and liabilities are available from incomplete records. Hence, it is difficult to ascertain true and fair view of state of affairs or financial position as on a particular date.

5) Errors and frauds Cannot be detected easily:

As only partial records are available. It may not be possible to have internal check in maintaining account to defect errors and Frauds.

6) Unacceptable to government and other authorities:

As accounts maintained are incomplete these may not comply with the legal requirement Hence government tax authorities and other. Legal authorities do not accept account prepared from incomplete rewards.

17. Dr.

In the books of Trichy Educational Society Receipts and Payments Account for the year ended 31st December, 2018 Cr.

Receipts	Rs.	Payments	Rs.
To Balance b/d		By Investments made	80,000
Cash in hand	20,000	By Honorarium paid	3,000
To Donation received	80,000	By Audit fees	2,000
To Locker rent received	12,000	By General expenses	7,000
To Sale of furniture	5,000	By Postage	1,000
To Subscription	10,000	By Balance c/d	
		Cash in hand	34,000
	1,27,000		1,27,000

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18. Dr Income and Expenditure Account for the year ended 31st March, 2019 Cr

Expenditure	Rs	Income	Rs	Rs
		By Subscription	50,000	
		Add:		
		Outstanding for the year		
		2017-2018	30,000	80,000

Total subscription due for current year (2018 - 19) (200×400)	= 80,000
Less : Amount received for the current year (2018-19)	= 50, 000
Outstanding subscription for the current year (2018 - 19)	Rs. 3000

Balance sheet as on 31st March, 2019

Liabilities	Rs	Assets	Rs	Rs
Subscription		Outstanding subscription		
rceived in advance		2017 - 2018	2,000	
for the year 2019-20	5,000	2018 - 2019	30,000	32,000

19.

Particulars	Brindha		Praveena	
	Rs.	Rs.	Rs.	Rs.
Capital on 31st December 20		30,000		40,000
Add: Drawings		5,000		7,000
		35,000		47,000
Less:				
Additional capital	6,000		10,000	
Profit already credited*	9,000	15,000	12,000	22,000
Capital on 1st January		20,000		25,000

Profit credited = Profit earned Rs. 31,000 – Balance profit as per balance sheet Rs. 10,000 = Rs. 21,000. This amount is distributed in their profit sharing ratio of 3:4.

Calculation of interest on capital:

Brindha:

On opening capital for 1 year	$20,000 \times \frac{6}{100}$	Rs. 1,200
On additional capital for 6 months	$6,000 \times \frac{6}{100} \times \frac{6}{12}$	Rs. 180
Total Interest on capital		Rs. 1,380

Praveena:

On opening capital for 1 year	$25,000 \times \frac{6}{100}$	Rs. 1,500
On additional capital for 3 months	$10,000 \times \frac{6}{100} \times \frac{3}{12}$	Rs. 150
Total interest on capital		Rs. 1.650

20. Interest on drawings = Amount of drawings × Rate of interest × Period of interest

Withdrawal on March 1	Rs. $3,000 \times \frac{12}{100} \times \frac{10}{12}$	Rs. 300
Withdrawal on June 1	Rs. $3,000 \times \frac{12}{100} \times \frac{7}{12}$	Rs. 210
Withdrawal on September 1	Rs. $3,000 \times \frac{12}{100} \times \frac{4}{12}$	Rs. 200
Withdrawal on December 1	Rs. $3,000 \times \frac{12}{100} \times \frac{1}{12}$	Rs. 30
Total interest on drawings		Rs. 660

Calculation of adjusted profit

21.

Particulars	2016 Rs.	2017 Rs.	2018 Rs.
Profit	30,000	29,000	32,000
Less: Non- recurring income	3,000	-	-
	27,000	29,000	32,000
Add: Stock destroyed by fire (abnormal loss)	-	2,000	32,000
Profit after adjustments	27,000	31,000	32,000

Average profit = $\frac{Total\ profit}{Number\ of\ year}$

Average profit = $\frac{27,000+31,000+32,000}{3}$

= $\frac{90,000}{3}$ = Rs. 30,000

Particulars	Rs.
Average profit before adjusting insurance premium payable	30,000
Less: Insurance premium payable in future	5,600
Average profit	24,400

Goodwill = Average profit × Number of years of purchase

= 24,400 × 2

= Rs. 48,800

22. (a) If profit is to be distributed on the basis of the previous year's profit

Rathi's share of profit for 3 months

= $32,000 \frac{3}{12} \times \frac{1}{5} = Rs.100$

Particulars		L.F	Debit Rs	Creditl Rs
Profit and loss suspense A/c	Dr		1,600	
To Rathi's capital A/c				1,600
(Profit is to be distributed as the basis of previous year profit)				

(b) If profit is to be distributed on the basis of average profit of the past 4 years

Average profit = $\frac{10,000 + 20,00 + 18,000 + 32,000}{4}$

= $\frac{80,000}{4} = Rs20,000$

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Rathi's share of profit for 3 months

$= 20,000 \times \frac{1}{5} \times \frac{3}{13} = Rs.1000$

Date	Particulars		L.E	Debit Rs	Credit Rs
2018	Profit and loss suspense A/c	Dr.		1,000	
March 31	To Rathi's capital A/c				1,000
	(Rathi's current year share of profit credited to her capital account)				

23. Following are the journal entries to be passed to record the revaluation of assets and liabilities

Date	Particulars		L.F	Debit Rs.	Credit Rs.
	1. For increase in the value of asset				
	Concerned asset A/c	Dr		XXX	
	To Revaluation A/c				XXX
	2. For decrease in the value of asset				
	Revaluation A/c	Dr		XXX	
	To Concerned asset A/c				XXX
	3. For increase in the amount of liabilities				
	Revaluation A/c	Dr		XXX	
	To Concerned liabilities A/c				XXX
	4. For decrease in the amount of liability				
	Concerned liability A/c	Dr		XXX	
	To Revaluation A/c				XXX
	5. For recording an unrecorded asset				
	Concerned asset A/c	Dr		XXX	
	To Revaluation A/c				XXX
	6. For recording an unrecorded liability				
	Revaluation A/c	Dr		XXX	
	To Concerned liability A/c				XXX
	7. For transferring the balance in revaluation Alc				
	(a) If there is profit on revaluation				
	Revaluation A/c	Dr		XXX	
	To Old partner's capital A/c (individually in old ratio)				XXX
	(b) If there is loss on revaluation				
	Old partner's capital Alc (individually in old ratio)			XXX	
	To Revaluation Ale				XXX

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24. Calculation of sacrificing ratio

Sacrificing ratio = Old share - New share

Varun $= \frac{5}{9} = \frac{1}{3} = \frac{5-3}{9} = \frac{2}{9}$

Bharath $= \frac{4}{9} = \frac{1}{3} = \frac{4-3}{9} = \frac{1}{9}$

Therefore, sacrificing ratio is 2 : 1

Journal Entry

Date	Particulars	L.F	Debit Rs.	Credit Rs.
	Cash A/c Dr		10,000	
	Damn's capital A/c Dr		5,000	
	To Varun's capital A/c (2/3)			10,000
	To Bharath's Capital A/c (1/3)			5,000
	(Share of goodwill of Damu credited to old partner's capital account)			

II) Answer any 7 questions and Q.no 30 is compulsory

25. A Statement of affairs is a Statement showing the assets and liabilities on a particular date. The balance of assets show on the right side and the balance of liabilities on the left side. This Statement resembles a balance Sheet the difference between the total of assets and total of liabilities is taken as Capital.

Capitals = Assets - Liabilities

26. Dr Bills receivable account Cr

Particulars	Rs.	Particulars	Rs
To Balance b/d	1,40,000	By Cash	3,90,000
To Debtors A/c	4,80,000	By Debtors	30,000
(Bills received during the year - balancing figure)		(Bills receivable dishonored)	
		By Balance c/d	2,00,000
	6,20,000		6,20,000

27. Dr. Income and Expenditure Account for the year ended 31st March, 2019 Cr.

Expenditure	Rs.	Rs.	Income	Rs.
To Sports materials consumed:			By Sale of old sports materials	500
Opening stock	3,000			
Add: Purchased in the current year	9,000			
	12,000			
Less: Closing stock	4,000	8,000		

Balance sheet as on 31st March, 2019

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
			Stock of sports materials		4,000

28. (i) Under this method, two accounts are maintained for each partner viz.
a) Capital account and
b) current account
(ii) The transactions relating to initial capital introduced, additional capital introduced and capital permanently withdrawn are entered in the capital account and all other transactions are recorded in the current account.

29. Total capitalised value of the average profit = $\frac{\text{Average profit}}{\text{Normal rate of return}} \times 100$
= $\frac{60,000}{10} \times 100$
= Rs. 6,00,000
Goodwill = Total capitalised value of the average profit − Capital employed
= 6,00,000 − 4,50,000
= Rs. 1,50,000

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30. Interest on drawings = Amount of drawings × Rate of Interest x Period of interest
= Rs. 30,000 × $\frac{6}{100}$ × $\frac{4}{12}$ = Rs. 3,600
Interest on drawings of mani = Rs. 600

Journal entries

Date	Particular	L.F	Debit Rs.	Credit Rs.
2018	Santhosh's capital A/c Dr.		600	
Dec 31	To Interest on drawings A/c			600
	(Interest on drawings charged)			
2018	Interest on drawings A/c Dr		600	
Dec 31	To Profit and loss appropriation A/c			600
	(Interest on drawing account closed)			

31. Super profit is the excess of average profit over the normal profit. Average profit is calculated by dividing the total adjusted actual profit of certain number of years by the total number of such years. Normal profit is the profit earned by the similar business, firms under normal conditions.
Normal profit = Capital employed × Normal rate of return.
Capital employed = Fixed assets + Current assets - Current liabilities.

32. To transfer the amount due to the deceased partner to the executor or legal representative of the deceased partner

Date	Particulars	L.F	Debit Rs	Credit Rs
	Deceased partner's capital AI c Dr.		xxx	
	To Deceased partner's executor's A/c			xxx
	(Amount transferred to executor's account			

33. Computation of sacrificing ratio and new profit sharing ratio
Share sacrificed by old partners
Hari = $\frac{1}{8}$
Saleem = 0
Sacrificing ratio = 1:0
Old ratio of Hari and Saleem is 5:3 that is $\frac{5}{8} : \frac{3}{8}$

New share of old partner = Old share - Share sacrificed
Hari = $\frac{5}{8} - \frac{1}{8} = \frac{5-1}{8} = \frac{4}{8}$
Saleem = $\frac{3}{8}$
Share of new partner Joel = $\frac{1}{8}$
New profit sharing ratio of Hari, Saleem and Joel is $\frac{4}{8} : \frac{3}{8} : \frac{1}{8}$ that is, 4:3:1.

34. When a partner is admitted into the partnership, the assets and liabilities are revalued as the current value may differ from the book value. Determination of current values of assets and liabilities is called revaluation of assets and liabilities.

I) Multiple Choice Question

35. (a) Capital in the beginning of the year
36. (c) Bills payable accepted during the year
37. (c) It is suitable for all types of organisations
38. (d) Cash and bank balance as on the date
39. (c) Surplus or deficit
40. (a) An asset
41. (d) Capital receipt
42. (d) 6% per annum
43. (a) Additional capital introduced
44. (c) Interest on loan - Debited to capital account
45. (b) Normal rate of return
46. (c) Goodwill under Annuity method - Average profit × Present value annuity factor
47. (a) Rs. 36,000
48. (a) Capital account of all the partners
49. (c) To adjust goodwill
50. (d) A's Executor loan account
51. (c) 2:1
52. (b) Rs. 3,000
53. (a) The old partners
54. (d) the sacrificing partne

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